

Q & A

Q. What is an expense ratio?

A. All mutual funds, including those in the Deferred Compensation Plan, have annual operating costs that are indirectly paid by shareholders. These annual operating expenses are factored into a Fund's price or dividend and subtracted from the share price daily. They are not charged to a shareholder's account.

This is very important because the higher a fund's operating expense, the more it takes away from the fund's return. Below are the total fund operating expenses for the last year compared to the average operating expense for the universe of stock and bond mutual funds.

Mutual Fund Average

Bond Mutual Funds—average operating expenses 1.11%

Stock Mutual Funds—average operating expenses 1.54%

Deferred Compensation Funds

Vanguard Prime Money

Market Fund—Inst. 0.11%

Stable Return Fund 0.10%

Vanguard Total Bond

Market Index—Inst. 0.10%

T. Rowe Price

New Income Fund 0.73%

Fidelity Puritan 0.67%

Fidelity Fund 0.63%

Vanguard Institutional Index . . . 0.05%

Wells Fargo Large Co.

Growth Fund 0.95%

Liberty ACORN Fund 0.82%

Ariel Growth Fund 1.19%

Provident Small Cap

Growth Fund 1.00%

T. Rowe Price

International Fund 0.98%

Distribution Decisions

Now what do I do with my money?

It is important that you know what options are available to you for the distribution of your funds from the Deferred Compensation Plan. Planning for retirement includes not only the accumulation of assets in the plan, but understanding the alternatives that are available when you retire or switch jobs.

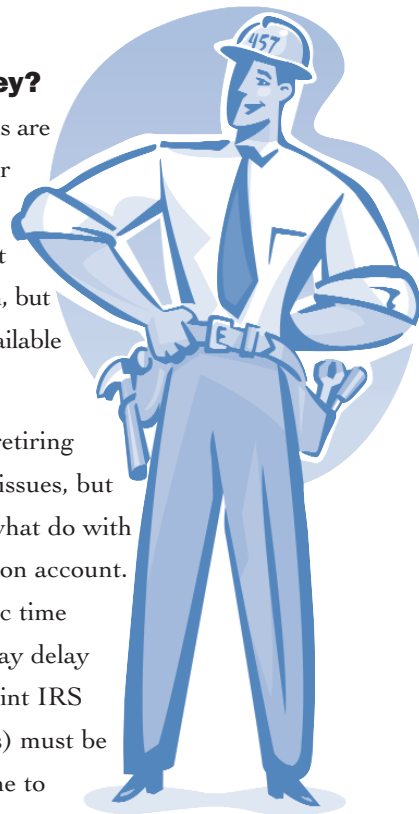
Those making a switch to a new job or retiring face a host of personal and professional issues, but also face a crucial financial decision of what to do with their accumulated Deferred Compensation account.

The good news is that there is no specific time period required for this decision. You may delay any decision up to age 70½, at which point IRS required minimum distributions (RMDs) must be made. Until then, you have plenty of time to thoroughly investigate your options and make a wise choice. Making a smart decision could save you a significant amount of money and keep you on track for retirement.

Those participants leaving state service can take the cash, leave the money in the Plan, transfer to a new employer's plan or roll it over into a traditional individual retirement account (IRA). Each option has advantages and disadvantages, so there is no one right answer for everybody. Each of these options will be briefly reviewed on the following pages, so you may better select the option that is right for your situation.

Taking the Money

It's tempting to take the money when you have the opportunity, especially if you're unemployed and could use the cash. Stop and think! You've worked hard to accumulate your retirement account over the years. If you take it now, you will pay taxes and must begin all over again. The need for instant cash may even cause you to work longer and delay retirement in the future.



(continued on page 2)

Distribution Decisions (continued from page 1)

Let's say you use \$5,000 to meet current expenses. If you fall into a 28% federal tax bracket you will pay \$1,400 in federal tax and receive only \$3,600. If your \$5,000 is left to grow tax-deferred and earns 8% for 30 years, it becomes \$50,000 in retirement money.

Keeping Your Deferred Compensation

Even though you are no longer a state employee, you can keep your account with the Deferred Compensation Plan. The Plan offers an array of mutual funds and the Stable Return Fund, a proprietary fund for Illinois. Not only do these funds allow for diversification, they are offered at no-load, with no sales charges or redemption fees. In addition, the Plan's funds have a lower expense ratio than the industry average. One institutional stock fund in the Plan has an expense ratio as low as 0.05% compared to over 1.50% for the average stock mutual fund! (See the Q&A section on the front page for details.) While the administrative fee has been waived for the year, last year this fee was a low 0.15% of your account balance on a yearly basis, with a maximum of \$45 a year. You will still receive the quarterly statements, have access to your account online through T. Rowe Price, and have the ability to move within the Plan's investment structure. You can no longer defer additional dollars into the Plan unless you return to state employment.

Flexibility in distribution has become popular among retirees in the Plan. A person may start, stop, or change a distribution method twice a year at no charge. While RMDs apply at age 70½, there are no penalties for withdrawal before age 59½.

Roll Over to Your New Employer

If you have a new employer that offers a 401(k), 403(b), or a 457 plan and accepts rollovers, this may be a worthy option to consider. You will keep your retirement assets in one location and they would continue to grow tax-deferred. Each retirement plan is designed

by the employer so there may be differences in the investment options offered, the administrative fees charged, and the rules and procedure of your new plan may differ.

You should request a copy of your new plan's summary plan description to learn the details and research the new plan's investments. For example, 401(k) and 403(b) plans have restrictions and potential penalties for withdrawals prior to age 59½. Your rollover assets will be subject to the new plan's rules and restrictions.

If you decide to roll over to a new employer's plan, you will want to make sure you have your funds directly transferred to your new employer. Many plans will not accept an indirect rollover.

Roll Over to an IRA

Once separated from state service, you can directly roll over your account to an IRA. By not taking a withdrawal, you can avoid current income taxes and the 20% withholding requirement while your assets continue to grow tax-deferred. Depending on the IRA, you can choose your own investments. You may want to research all potential charges against your account, such as an annual maintenance fee, loads, commissions, and the expense ratios of your new investments. Any 457 funds that are rolled into an IRA will be subject to the 10% early withdrawal penalty that an IRA contains. If you choose to roll over your account indirectly to an IRA, a mandatory 20% withholding rate applies. In an indirect rollover, you receive the check from your account and have a limited number of days to reinvest the balance or it becomes taxable.

Moving?

If you have recently moved or are planning to move, please notify the Deferred Compensation Office. The notification must be in writing. Just contact the office for a Change Form, or mail or fax the information with your signature and Social Security number.

If this change affects any beneficiary, or if their address has changed, you will also need to complete a new Beneficiary Election Form. These forms may also be downloaded from our Web site at www.state.il.us/cms/employee/defcom.

Telephone Numbers

Deferred Compensation:

Plan Rules/Options Information

800.442.1300

217.782.7006

TDD/TTY: 800.526.0844

Internet:

www.state.il.us/cms/employee/defcom

Recordkeeper:

T. Rowe Price Retirement Plan Services Account Value Information and

Investment Changes: 888.457.5770

TDD/TTY: 800.521.0325

Internet Access: 800.541.3022

Internet: rps.troweprice.com

Fund Performance:

Liberty Acorn Fund: 800.922.6769

Ariel Fund: 800.292.7435

Fidelity Funds: 800.544.8888

Provident Investment Counsel: 800.618.7643

Stable Return Fund/PRIMCO: 800.572.3819

T. Rowe Price Funds: 800.922.9945

Vanguard Funds: 800.523.8066

Wells Fargo: 866.561.1153

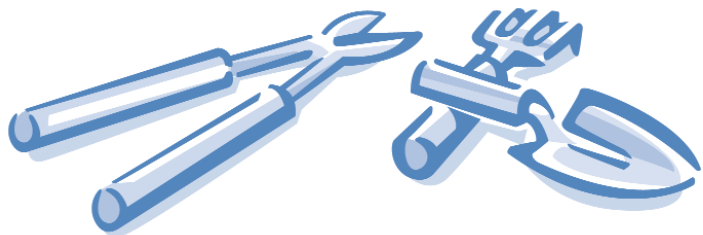
Financial Hardships - A Last Resort

It is good financial planning and budgeting to put money aside in a savings account for emergencies before you start investing in a retirement savings plan. Everyone can expect to run into a situation at some point that may require extra cash. Some of these circumstances should be budgeted for and are generally not considered a hardship. This can include auto or home payments/repairs, college tuition, credit card debt, or major appliance repairs or replacement. Also consider that taking money out of your deferred compensation for an immediate concern can seriously alter your plans for retirement. You should explore all methods to remedy your financial crisis prior to applying for a withdrawal.

Should you find yourself in a position that there is no other means to resolve your financial crisis, there is a hardship withdrawal provision for unforeseeable emergencies or loss of income. An unforeseeable emergency is defined as a circumstance for which you could have not logically planned or budgeted and you did not have significant control or failed to exercise prudent judgment. Examples of hardships that may be approved include high medical costs not covered by insurance, a disabling injury, or property damage from a natural catastrophe.

If you believe you qualify for a hardship and have no other means to resolve your crisis, contact the Deferred Compensation Division for a Hardship Application.

Supporting documentation is required along with the completed application. An independent committee meets every three weeks to review each case and determine if the applicant's situation meets IRS guidelines. Those applying for hardship are automatically revoked from participation while those granted a hardship must revoke their participation for six months.



Income and Price Information

Second Quarter 2003

Transaction Date	Vanguard Bond Index	T. Rowe Price New Income ¹	Fidelity Puritan ²	Fidelity ³	Vanguard Inst. Index ⁴	Wells Fargo Lg. Co. Growth	Liberty Acorn	Ariel	T. Rowe Price Int'l Stock	PIC Small Cap Growth
04/01/03	\$10.38	\$8.98	\$15.33	\$22.06	\$78.54	\$34.96	\$15.18	\$33.45	\$8.07	\$10.23
04/02/03	\$10.35	\$8.95	\$15.54	\$22.65	\$80.60	\$36.14	\$15.47	\$34.04	\$8.23	\$10.52
04/03/03	\$10.36	\$8.96	\$15.50	\$22.51	\$80.20	\$36.09	\$15.39	\$33.88	\$8.27	\$10.54
04/04/03	\$10.35	\$8.95	\$15.54	\$22.56	\$80.42	\$36.05	\$15.37	\$33.83	\$8.33	\$10.40
04/07/03	\$10.33	\$8.93	\$15.58	\$22.57	\$80.52	\$36.25	\$15.50	\$34.04	\$8.53	\$10.46
04/08/03	\$10.36	\$8.95	\$15.57	\$22.58	\$80.40	\$36.08	\$15.44	\$33.98	\$8.45	\$10.34
04/09/03	\$10.37	\$8.96	\$15.48	\$22.29	\$79.28	\$35.37	\$15.38	\$33.80	\$8.43	\$10.25
04/10/03	\$10.36	\$8.95	\$15.51	\$22.43	\$79.79	\$35.80	\$15.38	\$33.96	\$8.34	\$10.28
04/11/03	\$10.34	\$8.94	\$15.48	\$22.33	\$79.50	\$35.71	\$15.37	\$33.90	\$8.34	\$10.26
04/14/03	\$10.32	\$8.93	\$15.67	\$22.73	\$81.05	\$36.44	\$15.58	\$34.41	\$8.41	\$10.42
04/15/03	\$10.34	\$8.95	\$15.77	\$22.88	\$81.57	\$36.76	\$15.70	\$34.58	\$8.57	\$10.50
04/16/03	\$10.36	\$8.96	\$15.65	\$22.57	\$80.57	\$36.60	\$15.60	\$34.34	\$8.56	\$10.48
04/17/03	\$10.36	\$8.96	\$15.79	\$22.93	\$81.82	\$37.35	\$15.77	\$34.79	\$8.63	\$10.62
04/21/03	\$10.35	\$8.96	\$15.78	\$22.89	\$81.68	\$37.22	\$15.83	\$34.92	\$8.60	\$10.67
04/22/03	\$10.36	\$8.96	\$16.03	\$23.36	\$83.45	\$37.85	\$16.07	\$35.36	\$8.68	\$10.81
04/23/03	\$10.36	\$8.97	\$16.14	\$23.55	\$84.15	\$38.08	\$16.23	\$35.62	\$8.75	\$10.96
04/24/03	\$10.40	\$9.00	\$16.05	\$23.30	\$83.46	\$37.53	\$16.14	\$35.25	\$8.72	\$10.82
04/25/03	\$10.41	\$9.01	\$15.91	\$22.99	\$82.30	\$36.97	\$16.00	\$35.04	\$8.61	\$10.66
04/28/03	\$10.41	\$9.01	\$16.10	\$23.36	\$83.78	\$37.80	\$16.24	\$35.55	\$8.74	\$10.81
04/29/03	\$10.40	\$9.00	\$16.11	\$23.37	\$84.06	\$37.92	\$16.31	\$35.73	\$8.77	\$10.91
04/30/03	\$10.43	\$9.04	\$16.17	\$23.39	\$83.99	\$37.67	\$16.40	\$35.75	\$8.87	\$10.96
05/01/03	\$10.44	\$9.04	\$16.16	\$23.34	\$83.94	\$37.60	\$16.39	\$35.58	\$8.89	\$10.96
05/02/03	\$10.42	\$9.03	\$16.33	\$23.65	\$85.20	\$38.30	\$16.65	\$36.15	\$8.90	\$11.23
05/05/03	\$10.43	\$9.04	\$16.31	\$23.54	\$84.89	\$38.18	\$16.68	\$36.16	\$9.00	\$11.29
05/06/03	\$10.47	\$9.07	\$16.41	\$23.70	\$85.60	\$38.63	\$16.82	\$36.50	\$9.18	\$11.37
05/07/03	\$10.50	\$9.11	\$16.40	\$23.61	\$85.18	\$38.29	\$16.78	\$36.31	\$9.15	\$11.26
05/08/03	\$10.51	\$9.12	\$16.28	\$23.38	\$84.33	\$37.75	\$16.66	\$36.15	\$9.01	\$11.19
05/09/03	\$10.51	\$9.12	\$16.42	\$23.69	\$85.55	\$38.40	\$16.79	\$36.55	\$9.09	\$11.36
05/12/03	\$10.52	\$9.13	\$16.57	\$23.97	\$86.62	\$39.04	\$16.96	\$36.75	\$9.15	\$11.52
05/13/03	\$10.51	\$9.13	\$16.56	\$23.85	\$86.38	\$38.90	\$16.93	\$36.68	\$9.15	\$11.53
05/14/03	\$10.55	\$9.16	\$16.55	\$23.78	\$86.13	\$38.71	\$16.89	\$36.38	\$9.16	\$11.55
05/15/03	\$10.53	\$9.15	\$16.63	\$23.96	\$86.81	\$39.12	\$16.94	\$36.65	\$9.20	\$11.61
05/16/03	\$10.56	\$9.18	\$16.66	\$23.89	\$86.61	\$38.97	\$16.81	\$36.36	\$9.27	\$11.45
05/19/03	\$10.56	\$9.18	\$16.40	\$23.31	\$84.45	\$37.61	\$16.56	\$35.74	\$9.08	\$11.18
05/20/03	\$10.59	\$9.21	\$16.40	\$23.25	\$84.36	\$37.53	\$16.56	\$35.82	\$9.10	\$11.16
05/21/03	\$10.57	\$9.20	\$16.45	\$23.35	\$84.70	\$37.49	\$16.64	\$35.94	\$9.04	\$11.21
05/22/03	\$10.59	\$9.21	\$16.55	\$23.57	\$85.48	\$37.82	\$16.78	\$36.09	\$9.15	\$11.36
05/23/03	\$10.59	\$9.21	\$16.58	\$23.55	\$85.60	\$37.72	\$16.88	\$36.31	\$9.19	\$11.44
05/27/03	\$10.57	\$9.19	\$16.77	\$23.98	\$87.27	\$38.71	\$17.19	\$36.70	\$9.26	\$11.74
05/28/03	\$10.56	\$9.18	\$16.79	\$24.01	\$87.45	\$38.97	\$17.27	\$36.91	\$9.33	\$11.80
05/29/03	\$10.59	\$9.21	\$16.74	\$23.89	\$87.13	\$38.99	\$17.29	\$37.03	\$9.45	\$11.86
05/30/03	\$10.58	\$9.21	\$16.92	\$24.24	\$88.41	\$39.46	\$17.57	\$37.74	\$9.40	\$12.10
06/02/03	\$10.56	\$9.19	\$17.01	\$24.35	\$88.73	\$39.48	\$17.70	\$37.98	\$9.58	\$12.13
06/03/03	\$10.60	\$9.22	\$17.06	\$24.46	\$89.14	\$39.72	\$17.68	\$37.95	\$9.50	\$12.16
06/04/03	\$10.61	\$9.23	\$17.24	\$24.84	\$90.52	\$40.43	\$17.92	\$38.44	\$9.60	\$12.37
06/05/03	\$10.59	\$9.23	\$17.28	\$24.95	\$90.88	\$40.59	\$18.10	\$38.74	\$9.69	\$12.56
06/06/03	\$10.59	\$9.22	\$17.17	\$24.83	\$90.67	\$40.42	\$18.10	\$38.56	\$9.77	\$12.43
06/09/03	\$10.62	\$9.25	\$16.97	\$24.54	\$89.58	\$39.96	\$17.81	\$38.07	\$9.72	\$12.14
06/10/03	\$10.65	\$9.27	\$17.09	\$24.77	\$90.40	\$40.51	\$17.99	\$38.46	\$9.69	\$12.29
06/11/03	\$10.65	\$9.28	\$17.25	\$25.11	\$91.59	\$40.92	\$18.18	\$38.83	\$9.87	\$12.41
06/12/03	\$10.66	\$9.28	\$17.27	\$25.15	\$91.69	\$40.89	\$18.25	\$38.97	\$9.94	\$12.49
06/13/03	\$10.68	\$9.31	\$17.19	\$24.89	\$90.78	\$40.35	\$18.05	\$38.67	\$9.89	\$12.32
06/16/03	\$10.65	\$9.29	\$17.43	\$25.43	\$92.81	\$41.46	\$18.31	\$39.39	\$9.98	\$12.52
06/17/03	\$10.61	\$9.26	\$17.39	\$25.48	\$92.90	\$41.52	\$18.33	\$39.34	\$10.07	\$12.58
06/18/03	\$10.58	\$9.23	\$17.34	\$25.36	\$92.76	\$41.50	\$18.28	\$39.33	\$10.06	\$12.68
06/19/03	\$10.59	\$9.23	\$17.18	\$24.94	\$91.35	\$40.84	\$18.08	\$39.10	\$9.93	\$12.45
06/20/03	\$10.57	\$9.21	\$17.19	\$24.96	\$91.11	\$40.75	\$18.09	\$39.13	\$9.94	\$12.42
06/23/03	\$10.60	\$9.24	\$17.03	\$24.63	\$89.83	\$40.16	\$17.80	\$38.59	\$9.77	\$12.12
06/24/03	\$10.61	\$9.25	\$17.08	\$24.68	\$89.99	\$40.26	\$17.81	\$38.88	\$9.65	\$12.18
06/25/03	\$10.58	\$9.23	\$16.99	\$24.50	\$89.25	\$39.83	\$17.97	\$38.83	\$9.75	\$12.34
06/26/03	\$10.52	\$9.17	\$17.06	\$24.75	\$90.24	\$40.34	\$18.13	\$39.10	\$9.61	\$12.54
06/27/03	\$10.50	\$9.16	\$16.95	\$24.51	\$89.37	\$39.88	\$18.13	\$39.10	\$9.65	\$12.53
06/30/03	\$10.52	\$9.18	\$16.95	\$24.46	\$89.21	\$39.92	\$18.11	\$39.17	\$9.57	\$12.49

¹ New Income earnings are calculated using daily income accruals. They credit earnings to the first working day of the following month. Therefore, 30 days were credited for April, 32 days were credited for May, and 29 days were credited for June.

² Puritan declared a distribution of \$.10 payable June 6, 2003, to shareholders of record on June 5, 2003, using a share value of \$17.17.

³ Fidelity declared a distribution of \$.05 payable June 6, 2003, to shareholders of record on June 5, 2003, using a share value of \$24.85.

⁴ Vanguard Institutional Index Fund declared a distribution of \$.53 payable June 20, 2003, to shareholders of record on June 19, 2003, using a share value of \$91.11.